

1968

*Mar. 26,
27, 28
June 3

FORMEA CHEMICALS LIMITED }

(Plaintiff) }

APPELLANT;

AND

POLYMER CORPORATION LIMITED }

(Defendant) }

RESPONDENT.

ON APPEAL FROM THE COURT OF APPEAL FOR ONTARIO

Patents—Infringement—Crown corporation an agent of the Crown—Action for infringement of patent against Crown corporation—Whether liable by way of injunction and damages—Right of Crown to use any patent—Whether Crown corporation covered—Patent Act, R.S.C. 1952, c. 203, ss. 19, 56—Government Companies Operation Act, R.S.C. 1952, c. 133, s. 3(1).

The plaintiff, as assignee of a patent, commenced proceedings for infringement in the Supreme Court of Ontario against the defendant, a Crown corporation. By virtue of s. 3(1) of the *Government Companies Operation Act*, R.S.C. 1952, c. 133, the defendant is “for all its purposes an agent of Her Majesty and its powers may be exercised only as an agent of Her Majesty”. The defendant pleaded that the relief sought by the plaintiff was not available by virtue of s. 19 of the *Patent Act*, R.S.C. 1952, c. 203, which provides that “the Government of Canada may, at any time, use any patented invention, paying to the patentee such sum as the Commissioner reports to be a reasonable compensation for the use thereof . . .”. The action was dismissed by the trial judge whose judgment was affirmed by a majority judgment in the Court of Appeal. The plaintiff appealed to this Court.

Held: The appeal should be dismissed.

By virtue of s. 19 of the *Patent Act*, the defendant had statutory authority to use the patent. The words “Government of Canada” in that section are equivalent to “the Crown”. The submission that the rights conferred by the section are not sufficient to empower the sale of a product to the public which is, or has been produced by the use of, a patented invention, could not be entertained. The word “use” covers sale. The use by the defendant of the patent was, in the circumstances, a use by the Crown within s. 19. There was therefore no infringement.

Brevets—Contrefaçon—Compagnie de l'État, mandataire de la Couronne—Action pour violation d'un brevet contre cette compagnie—Peut-elle être recherchée par voie d'injonction et en dommages—La Couronne ayant droit de se servir d'une invention brevetée—La compagnie de l'État a-t-elle ce même droit—Loi sur les brevets, S.R.C. 1952, c. 203, arts. 19, 56—Loi sur le fonctionnement des compagnies de l'État, S.R.C. 1952, c. 133, art. 3(1).

La demanderesse, comme cessionnaire d'un brevet, a institué des procédures contre la défenderesse, une compagnie de l'État, pour violation d'un brevet devant la Cour suprême de l'Ontario. Selon l'art. 3(1) de la

*PRESENT: Cartwright C.J. and Fauteux, Martland, Judson, Ritchie, Spence and Pigeon JJ.

Loi sur le fonctionnement des compagnies de l'État, S.R.C. 1952, c. 133, la défenderesse est «à toutes ses fins, mandataire de Sa Majesté, et elle ne peut exercer ses pouvoirs qu'en cette qualité». La défenderesse a plaidé que la demanderesse ne pouvait pas se prévaloir du remède recherché vu les dispositions de l'art. 19 de la *Loi sur les brevets*, S.R.C. 1952, c. 203, qui prévoit que «Le Gouvernement du Canada peut à tout moment se servir d'une invention brevetée, en payant au breveté, pour l'usage de l'invention, la somme que, dans un rapport, le commissaire estime être une indemnité raisonnable . . . ». L'action a été rejetée par le Juge de première instance dont le jugement a été confirmé par un jugement majoritaire de la Cour d'appel. La demanderesse en a appelé à cette Cour.

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Arrêt: L'appel doit être rejeté.

En vertu de l'art. 19 de la *Loi sur les brevets*, la défenderesse avait l'autorité statutaire de se servir du brevet. Dans cet article, les mots «Gouvernement du Canada» sont l'équivalent de «la Couronne». La prétention que les droits conférés par l'article ne sont pas suffisants pour permettre la vente au public d'un produit qui est, ou a été, fabriqué en se servant de l'invention brevetée, ne peut pas être admise. Les mots «se servir» comprennent la vente. L'usage de l'invention brevetée par la défenderesse était, dans les circonstances, un usage par la Couronne dans le sens de l'art. 19. Il n'y a donc pas eu de contrefaçon.

APPEL d'un jugement de la Cour d'appel de l'Ontario¹, confirmant un jugement du Juge Parker. Appel rejeté.

APPEAL from a judgment of the Court of Appeal for Ontario¹, affirming a judgment of Parker J. Appeal dismissed.

P. B. C. Pepper, Q.C., and *R. J. Fraser*, for the plaintiff, appellant.

Gordon F. Henderson, Q.C., and *John Richard*, for the defendant, respondent.

The judgment of the Court was delivered by

MARTLAND J.:—This appeal is from a judgment of the Court of Appeal for Ontario¹, which, by a majority decision, dismissed an appeal by the appellant, initially restricted by order of the Court of Appeal to certain points of law raised in the notice of appeal from the judgment at trial which had dismissed the appellant's action against the respondent. The present appeal involves only the appellant's claim for relief by way of injunction and damages for alleged infringement by the respondent of the appellant's patent.

¹ [1967] 1 O.R. 546, 35 Fox Pat. C. 21, 49 C.P.R. 251, 61 D.L.R. (2d) 475.

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The patent in question, no. 453,251 and entitled "Polymeric Compositions and Methods of Making the Same", was granted on December 14, 1948, to T. A. TeGrotenhuis, W. C. McCoy and L. L. Evans. It was assigned by the patentees to the respondent on February 18, 1949, pursuant to an agreement whereby the respondent undertook to pay to the patentees royalties on material produced under the patent. The agreement provided that the respondent, if not in default, had the option to reassign the patent to the patentees, without prejudice to the respondent's right thereafter to contest the scope and validity of the patent.

This option was exercised by the respondent on January 9, 1953, after receiving an opinion of counsel that the patent did not cover the materials being produced by the respondent.

The patentees, on May 3, 1955, assigned the patent to the appellant, which commenced these infringement proceedings in respect of materials produced by the respondent subsequent to January 9, 1953.

The respondent was incorporated on February 13, 1942, under Part I of *The Companies Act, 1934*, c. 33, Statutes of Canada, 1934. Its objects included the manufacturing, selling and generally dealing in synthetic rubber. At all material times all of its issued shares, other than directors' qualifying shares, were held by the Minister of Munitions and Supply, and later by the Minister of Defence Production. By proclamation dated August 1, 1946, made pursuant to s. 6 of the *Government Companies Operation Act*, c. 24, Statutes of Canada, 1946 (now R.S.C. 1952, c. 133), that Act was made applicable to the respondent. That Act provides, by s. 3(1), that

Every Company is for all its purposes an agent of Her Majesty and its powers may be exercised only as an agent of Her Majesty.

The respondent, in its statement of defence, pleaded that the relief sought by the appellant in respect of the alleged infringement was not available to the appellant by virtue of s. 19 of the *Patent Act*, R.S.C. 1952, c. 203. That section provides that:

The Government of Canada may, at any time, use any patented invention, paying to the patentee such sum as the Commissioner reports to be a reasonable compensation for the use thereof, and any decision of the Commissioner under this section is subject to appeal to the Exchequer Court.

The proceedings in this case were brought in the Supreme Court of Ontario, in reliance upon s. 56(1) of the *Patent Act*. Section 56 reads as follows:

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56. (1) An action for the infringement of a patent may be brought in that court of record that, in the province wherein the infringement is said to have occurred, has jurisdiction, pecuniarily, to the amount of the damages claimed and that, with relation to the other courts of the province holds its sittings nearest to the place of residence or of business of the defendant; such court shall decide the case and determine as to costs, and assumption of jurisdiction by the court is of itself sufficient proof of jurisdiction.

(2) Nothing in this section impairs the jurisdiction of the Exchequer Court under section 21 of the Exchequer Court Act or otherwise.

The learned trial judge reached the following conclusions:

It would appear that this court could assume jurisdiction under the Patent Act so long as a right to claim for infringement exists. Since the Crown has a right to use any patented invention, subject to paying compensation, such use cannot be an infringement to provide this Court with jurisdiction under section 56(1) of the Patent Act.

Having decided that the Crown has a right to use any patented invention, subject to paying compensation, also disposes of the submission that use by the Crown is a tort which would give this Court jurisdiction.

He also held that neither of the products, in the making of which the appellant alleged that the respondent had infringed the patent, was covered by the patent.

The appeal from this judgment was initially restricted, by order of the Court of Appeal, to certain points of law referred to in the notice of appeal.

The only points of law stated in the notice of appeal which were argued by the appellant in the Court of Appeal were points 2 and 3:

2. The learned trial judge erred in law in considering that the defendant is "the Government of Canada" within the meaning of s. 19 of the Patent Act, R.S.C. 1952, Ch. 203 and that the defendant has "used the patented inventions" within the meaning of that section. The learned trial judge thereby erred in law in his conclusion that this Honourable Court has no power to assess compensation.

3. The learned trial judge erred in law in concluding that the Court has no jurisdiction to entertain that part of the plaintiff's claim (Polysar SS-250) which seeks damages for alleged infringement of patent.

The Court of Appeal, by a majority of two to one, dismissed the appeal.

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McLennan J.A., who delivered the reasons of the majority, after stating that the real issue was raised in ground 3, reached the following conclusion, which he considered decisive:

My conclusion is that at common law an action for infringement of patent being an action in tort is not maintainable against the respondent because it is an agent of the Crown and its powers may be exercised only as such agent and although the Crown Liabilities Act, Statutes of Canada, 1952-3, Cap. 30, provides that the Crown is liable for damages in respect of a tort, a saving clause in the section imposing liability is applicable to this case, and the common law rule is not affected.

The saving clause to which he refers, and on which he relies in his judgment, is subs. (6) of s. 3.

Wells J.A., as he then was, dissented and was of the opinion that the commercial sale by the respondent to the public of its products was not the "use" of a patented invention within the meaning of s. 19 of the *Patent Act*, that such sales would constitute an infringement of a patent, and that the respondent, though a Crown agent, if it exceeded its powers could be made liable in tort for such an infringement by virtue of s. 3(3) of the *Government Companies Operation Act*, which provides that:

3. (3) Actions, suits or other legal proceedings in respect of any right or obligation acquired or incurred by a Company on behalf of Her Majesty, whether in its name or in the name of Her Majesty, may be brought or taken by or against the Company in the name of the Company in any court that would have jurisdiction if the Company were not an agent of Her Majesty.

While I have reached the conclusion that the appeal fails, my reasons are not the same as those of the majority in the Court of Appeal.

It is unnecessary to determine, in the circumstances of the present case, what may be the liability of an agent of the Crown, which, without lawful authority, infringes upon the rights of others. I do not base my decision upon, nor do I adopt the general proposition that an action in tort will not lie as against an agent of the Crown.

In my opinion, the appellant's claim for an infringement of its patent fails because the respondent, by virtue of s. 19 of the *Patent Act*, had statutory authority to use the patent. That section confers the right to use any patented invention upon the "Government of Canada". I agree with Wells J.A. that this phrase is equivalent to "the Crown". He refers, on this point, to ss. 9 to 13 of the

British North America Act. It is also implicit in the judgment of this Court in *The King v. Bradley*² that the two terms are equivalent. That case involved a petition of right against the Crown in respect of compensation claimed to be payable under s. 19, which claim had been denied by the Crown.

The submission of the appellant, which found favour with Wells J.A., is that the rights conferred by s. 19 are not sufficient to empower the sale of a product to the public which is, or has been produced by the use of, a patented invention. In reaching this conclusion he traces the history of the Crown's rights, in relation to patents, in England, and relies upon the recent decision of the House of Lords in *Pfizer Corporation v. Ministry of Health*³.

In England, the granting of a patent for an invention was an exercise of the Royal Prerogative. In *Feather v. The Queen*⁴, it was held that:

Letters patent, in the usual form, for an invention, whereby, on the prayer of the patentee, the Crown of its "special grace, certain knowledge, and mere motion," grants to him "special licence, full power, sole privilege and authority to" "make, use, exercise and vend" the invention, and "enjoy the whole profit, benefit, commodity and advantage from time to time coming, growing, accruing, and arising by reason of the said invention," and prohibits "all and every person and persons, bodies politic and corporate, and all other our subjects whatsoever, of what estate, quality, degree, name or condition soever," directly or indirectly, from making, using or practising the same "without the consent, licence or agreement" of the patentee, with the condition that the patentee should supply articles of the invention for the use of the Crown, at and upon such reasonable prices and terms as should be settled by the officers of the Crown requiring them; and that the letters patent should be "taken, construed and adjudged in the most favourable and beneficial sense for the best advantage of" the patentee, do not preclude the Crown from the use of the invention protected by the patent, even without the assent of or compensation made to the patentee.

At p. 268, Chief Justice Cockburn, delivering the judgment of the Court, said:

This appears to shew that in granting a privilege, otherwise of universal application, the Crown will not be bound unless it expressly declares its intention to that effect, and that grants of a privilege, however general in their terms, can, in the absence of express words to bind the Crown, be taken only as conferring the privilege as against the subject, exclusive of the Crown.

² [1941] S.C.R. 270, 1 C.P.R. 1, 2 D.L.R. 737.

³ [1965] A.C. 512.

⁴ (1865), 6 B. & S. 257, 122 E.R. 1191.

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In 1876, in the House of Lords, in *Dixon v. The London Small Arms Company Limited*⁵, it was held that a company which employed a patented process in the manufacture of small arms for the Crown, and which was not a servant or agent of the Crown, was liable in a suit for infringement.

Lord Cairns L.C. said, at p. 641:

My Lords, I have used the words "servants or the agents of the Crown" for this reason. The case of *Feather v. The Queen*, 6 B. & S. 257; 35 L.J. (Q.B.) 200, decided that although every grant of letters patent communicates in general terms to the patentee the right, and the sole right, to use and to exercise the invention, and prohibits other persons from using or exercising that invention, yet that a grant of that kind, being a Crown grant, must be construed with reference to those principles which regulate Crown grants, and that that which appears from its wording to be a general privilege and a general prohibition must be read with an exception in favour of the Crown itself; and inasmuch as an exception in favour of the Crown itself cannot be a personal exception, for the Crown itself could not exercise patent rights, the exception must be not only in favour of the Crown, but in favour also of those who act on behalf of, and as the agents of, the Crown. I, therefore, in the course of the argument, took the liberty of proposing to the Solicitor-General the insertion of words in the letters patent which would indicate the decision of the Court in the case of *Feather v. The Queen*; and, with the exception of one word which the Solicitor-General proposed to add, I did not find that he took any exception or made any objection to the words which I proposed to insert. I propose to read, my Lords, and I submit to your Lordships that it is the proper course that we should read, the grant of the letters patent as a grant by the Crown to the patentee of a "license, full power, sole privilege and authority that he" the patentee, "his executors, administrators, and assigns, and every of them, by himself and themselves, or by his and their deputy or deputies, servants, or agents, or such others as he" the patentee, "his executors, administrators, or assigns, shall at any time agree with, and no others." I propose there to insert these words, "excepting officers, agents, and servants of the Crown, acting on behalf of and for the use of the Crown" "from time to time, and at all times hereafter, for the term of years herein expressed, shall and lawfully may make, use, exercise, and vend the said invention within our *United Kingdom, &c.*" My Lords, I say I did not understand the Solicitor-General to object to the words which I proposed to insert, except that he added to the words which I have proposed the word "agents." I having used simply the words "officers and servants of the Crown".

What the Court was concerned with in the passage quoted was this. Accepting the proposition established in *Feather v. The Queen*, that letters patent for an invention, though general in terms, must be construed as subject to an exception in favour of the Crown, such exception was not purely personal to the Crown, but extended to officers,

⁵ (1875-6), 1 App. Cas. 632.

agents and servants of the Crown acting on behalf of and for the use of the Crown. I do not, as did Wells J.A., construe this as "a substantial limitation of the Royal Prerogative". The position of the Crown was still the same, i.e., the letters patent of invention did not affect it. But, in addition, as Lord Cairns said in the passage quoted:

. . . the exception must be not only in favour of the Crown, but in favour also of those who act on behalf of, and as the agents of, the Crown.

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In 1883 a new *Patent Act* was passed in England (46 & 47 Vict., c. 57), which, in effect, reversed the decision in *Feather v. The Queen*, and which altered the law as to the use of a patent by an agent or servant of the Crown, as stated in the *Dixon* case, by extending the right of use to contractors, and also by making provision for compensation.

It provided as follows:

27. (1). A patent shall have to all intents the like effect as against Her Majesty the Queen, her heirs and successors, as it has against a subject.

(2). But the officers or authorities administering any department of the service of the Crown may, by themselves, their agents, contractors, or others, at any time after the application, use the invention for the services of the Crown on terms to be before or after the use thereof agreed on, with the approval of the Treasury, between those officers or authorities and the patentee, or, in default of such agreement, on such terms as may be settled by the Treasury after hearing all parties interested.

These provisions were carried forward, in substantially the same terms, in subsequent legislation. The *Patents Act, 1949*, which was under consideration in the *Pfizer* case, contains the following provisions:

21. (2). Subject to the provisions of this Act and of subsection (3) of section three of the *Crown Proceedings Act, 1947*, a patent shall have the same effect against the Crown as it has against a subject.

46. (1). Notwithstanding anything in this Act, any Government department, and any person authorised in writing by a Government department, may make, use and exercise any patented invention for the services of the Crown in accordance with the following provisions of this section.

The subsequent provisions of s. 46, inter alia, provide for compensation.

Canadian legislation with respect to these matters has been substantially different. In 1869 there was enacted an *Act Respecting Patents of Invention* (c. 11, Statutes of

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Canada, 1869). It provided for the granting of patents of invention by the Commissioner of Patents of Invention. Section 21 provided that:

The Government of Canada may always use any patented invention or discovery, paying to the patentee such sum as the Commissioner may report to be reasonable compensation for the use thereof.

Section 19 of the present Act, previously quoted, is to the same effect. The rights of a patentee in Canada are defined by s. 46 of the Act. It is this section which, subject to the conditions of the Act, confers exclusive rights upon the patentee.

There was not then, and there is not now any provision, similar to the English legislation, declaring that a patent has the like effect against the Crown as it has against a subject. In the absence of such a provision, and in the light of s. 16 of the *Interpretation Act*, R.S.C. 1952, c. 158, it is questionable whether a patent does have effect against the Crown. Section 16 provides that

No provision or enactment in any Act affects, in any manner whatsoever, the rights of Her Majesty, her heirs or successors, unless it is expressly stated therein that Her Majesty is bound thereby.

In *McDonald v. The King*⁶, it was stated that, apart from statute, the Crown has power, if it sees fit to do so, to use a patented invention without the assent of the patentee and without making compensation to him therefor.

This point was left open in the decision of this Court in *The King v. Bradley*, *supra*. I do not think it is necessary to determine it in these proceedings because of the opinion I have reached as to the scope of s. 19.

The differences between s. 19 of the Canadian Act and s. 46(1) of the English Act are material. The former confers upon the Crown an unrestricted right to use a patent. The latter confers on a Government department the right to make, use and exercise a patent "for the services of the Crown."

It is in the light of these differences that I now turn to a consideration of the *Pfizer* case. The question in issue there was as to whether the Ministry of Health was within

⁶ (1906), 10 Ex. C.R. 338.

the protection offered by s. 46(1) of the English *Patent Act* when it purchased supplies of a drug for National Health Service hospitals from an English company, which imported the drug from abroad and which had no licence from the holder of the English patent in respect of that drug. The drug was used by the hospitals for both in-patients and out-patients. It was supplied by the hospitals to out-patients on payment of a nominal charge made under the National Health Service regulations.

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The main issue, in both the Court of Appeal⁷ and in the House of Lords⁸ was as to whether this supplying of drugs was "for the services of the Crown." It was held that it was. Another issue was as to whether the Ministry of Health was authorized under the section to sell the drug to out-patients. The House of Lords determined this issue by deciding that the relationship of the Ministry to the out-patients was a statutory relationship and not a sale, in the sense of a consensual contract. This was also the view taken by the Court of Appeal, but, in addition, it was held there that the word "use" was broad enough to cover a sale by the Ministry.

It is contended by the appellant that the reasoning of the House of Lords indicates that, unlike the Court of Appeal, they held the opinion that "use" in s. 46(1) did not authorize sale. I think the proper interpretation of their reasons is that, holding the view that there had been no sale, they preferred not to deal with the matter. Thus, for example, Lord Evershed says, at p. 541:

It was the view of Diplock L.J. that nonetheless the true implication of the word "use" in the 1883 Act and repeated in the subsequent legislation involved, as a proper and essential aspect or exercise of "using", a power also to vend, that is, so that a Government department could give authority to "vend" articles which were the subject of letters patent. I wish to acknowledge the attraction of the argument of the learned Lord Justice which was, as I understand, accepted also by his colleagues in the Court of Appeal. But for my own part while I greatly respect the reasoning of the Lord Justice I would prefer to express no view upon it.

In any event, it is my opinion that the word "use" in s. 19 of the Canadian Act has a broader application than it

⁷ [1964] Ch. 614.

⁸ [1965] A.C. 512.

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has in the context of s. 46(1) of the English Act. In s. 19 the Crown is given an unrestricted power at any time to use any patented invention. In s. 46(1) no power is conferred upon the Crown (which is bound by the patent by s. 21(2)), but a power is given to a Government department to use a patent "for the services of the Crown."

In relation to s. 19 I would adopt the statement of Diplock L.J. at p. 658:

The verb "use," in relation to the object "any patented invention," is in its ordinary connotation wide enough to comprehend selling the patented articles if the invention is itself a product or articles manufactured by patented process if the invention is a process of manufacture.

In my opinion the Crown, under s. 19, has an unrestricted right to use a patent. It caused the respondent to be incorporated to manufacture, sell and deal in synthetic rubber and made the respondent, for all its purposes, its agent. The use by the respondent of the patent was, in the circumstances, a use by the Crown within s. 19. This being so, there was no infringement by the respondent of such patent.

The appeal should be dismissed with costs.

Appeal dismissed with costs.

Solicitors for the plaintiff, appellant: McMillan, Binch, Stuart, Berry, Dunn, Corrigan & Howland, Toronto.

Solicitors for the defendant, respondent: Gowling, MacTavish, Osborne & Henderson, Ottawa.